

AR64

# report99

Pacific & Western Credit Corp. 

[etrustofcanada.com](http://etrustofcanada.com)



## mission

To maximize the value of our common shares and total return to our shareholders over time by using new technologies to enhance our core competencies and outsourcing work best suited to other suppliers to achieve extraordinary productivity, and by maintaining a corporate culture that embraces creativity, innovation, optimism, courage, and the ardent desire for excellence in each niche market in which we choose to compete.

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## corporate profile

Date incorporated: November 17, 1970

Business: Specialized financial services

Lending operations: London, Ontario

Deposit operations: Saskatoon, Saskatchewan

Target markets: Retail depositors  
Public sector entities  
Southwestern Ontario developers

Assets: \$544 million

Net income: \$4.7 million

Return on common equity: 26.2%

Basic earnings per common share: \$0.10

Fully-diluted earnings per common share: \$0.09

Listing: TSE

Securities: Common shares - PWC  
Preferred shares - PWC.PR.A  
Preferred shares - PWC.PR.B  
Series C Notes - PWC.N



There's something new on the horizon



etrustofcanada



## message to shareholders

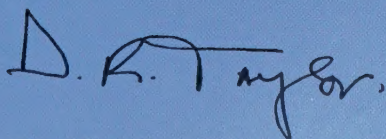
Pacific & Western greets the new millennium and the new economy with enthusiasm. Our investment in technology is now paying dividends. Our efficiency ratios rank us as one of the world's most efficient financial institutions. We are the low cost producer.

In 1993, we set out to create a financial institution that would not need a traditional branch network to distribute its products. Rather than building branches, we built relationships with people who could distribute our products from their own premises. We invested heavily in technology so that we could pay attractive rates of interest to our depositors and still provide competitive loan rates to our borrowers. When it came to lending, we focused and still focus on low risk niche markets that are often overlooked by the larger financial institutions but are perfectly suited for us.

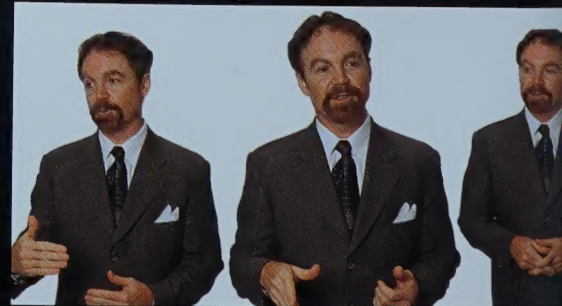
During 1999, our revenue grew from \$20.8 million to \$30.1 million, a 45% increase, whereas our fixed costs only grew by \$610,000. With this powerful efficiency advantage, we were able to grow our asset portfolio by 46% and increase net income by 18%, earning a return on average common equity of 26.2%.

This year, we are continuing to take advantage of new technologies and will launch an electronic banking program. One of our core beliefs, however, is that banking is still a very personal business. We want to meet the people we are lending to and our depositors want to know that there is a person they can talk to about their investments. We are using the new technologies to give our customers more choice and superior service at a better price. Our ebanking program will provide high rate daily interest savings accounts with bill payment facilities. In order to expand our deposit taking activities throughout Canada, our Trust Company has applied for a federal trust licence and we have registered the domain name "etrustofcanada.com".

These are exciting times for Pacific & Western. Our unique way of doing business is perfectly suited for the new economy.



David R. Taylor  
*President & Chief Executive Officer*





“We are using the new technologies to give our customers more choice and superior service at a better price”.





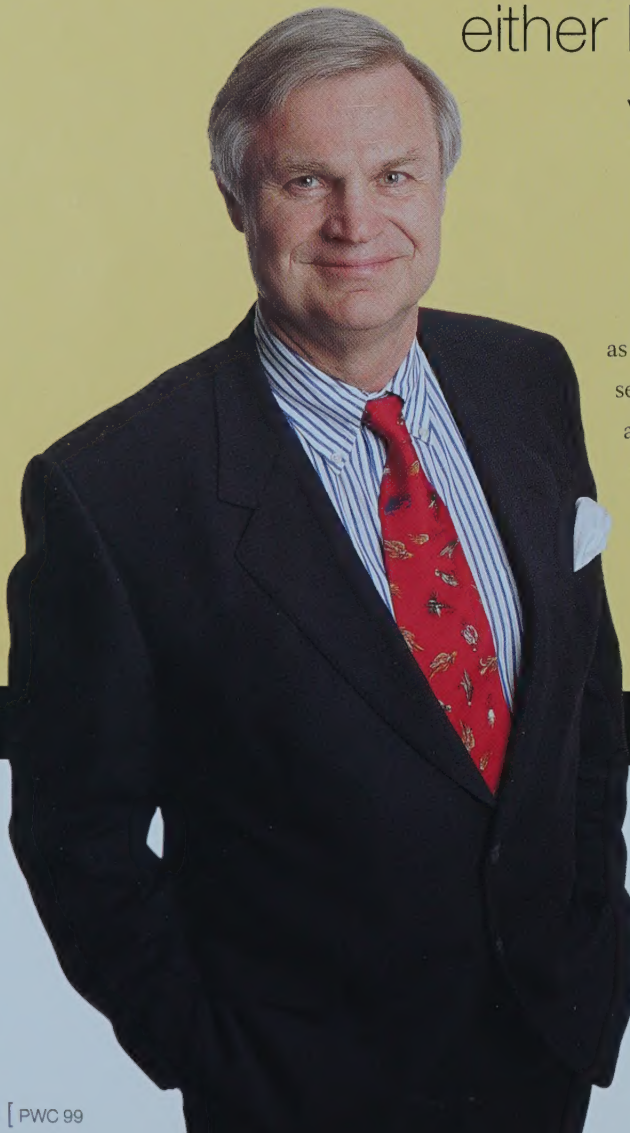
## chairman's report

Be the best of whatever you are.

We stand at the apex of the two millennia reflecting on what has been accomplished and what we wish to accomplish in the future. David Taylor and his team have created a new organizational structure, advanced technological skills, a fast delivery system and on-the-spot decision making while reporting excellent profits. Your company will continue in its efforts to out-perform its competitors. We have always budgeted to deliver each dollar of revenue at a much lower cost than our competitors. This superior ability to create greater value from limited resources requires dedicated people who are prepared to look at your company

"There is an old adage that 'to be successful in business you must be either better, faster, cheaper or you must be different' – we plan to be both".

as owners. David and his team are well aware that, in the financial services area, products and technology can be readily duplicated. As a result, we must continue to stress innovation in our products and technology. We will do this by recognizing that our most important asset is our people. We believe that our people are more talented, more focussed, more enthusiastic and accept more ownership than our competitors. As a result, we believe that we will continue to have an advantage over our competitors.

A portrait of Peter R. Lockyer, Chairman of the Board. He is a middle-aged man with grey hair, wearing a dark suit, a light blue and white striped shirt, and a red tie with a small pattern. He is smiling slightly and looking towards the camera. His hands are in his pockets.

*Peter R. Lockyer*

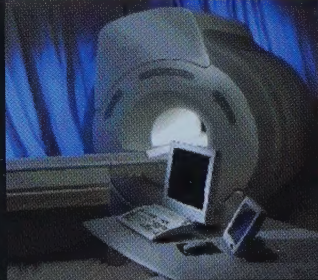
Peter R. Lockyer  
Chairman of the Board

# financial highlights

|                                    |              |              |              |               |               |
|------------------------------------|--------------|--------------|--------------|---------------|---------------|
| (000s omitted)                     | 95           | 96           | 97           | 98            | 99            |
| <b>Investment Income</b>           |              |              |              |               |               |
| Loan Interest                      | \$4,300      | \$5,095      | \$7,480      | \$13,900      | \$18,546      |
| Securities (TEB)                   | 819          | 1,668        | 3,716        | 5,752         | 12,441        |
| Loan Fees                          | 407          | 267          | 706          | 1,196         | 868           |
| Total                              | 5,526        | 7,030        | 11,902       | 20,848        | 31,855        |
| <b>Yield on Assets</b>             | <b>8.83%</b> | <b>8.57%</b> | <b>7.24%</b> | <b>6.92%</b>  | <b>6.95%</b>  |
| <b>Interest Expense</b>            | <b>4,017</b> | <b>4,809</b> | <b>8,338</b> | <b>14,655</b> | <b>24,277</b> |
| Cost of Funds                      | 6.42%        | 5.86%        | 5.07%        | 4.87%         | 5.29%         |
| <b>Net Investment Income (TEB)</b> | <b>1,509</b> | <b>2,221</b> | <b>3,564</b> | <b>6,193</b>  | <b>7,578</b>  |
| Spread                             | 2.41%        | 2.71%        | 2.17%        | 2.05%         | 1.65%         |
| Provisions for Losses              | 508          | 194          | 301          | 401           | 321           |
| <b>Other Income (TEB)</b>          | <b>0</b>     | <b>0</b>     | <b>0</b>     | <b>3,213</b>  | <b>4,255</b>  |
| <b>Total Revenue (TEB)</b>         | <b>1,001</b> | <b>2,027</b> | <b>3,263</b> | <b>9,005</b>  | <b>11,512</b> |
| <b>Non-Interest Expenses</b>       |              |              |              |               |               |
| Salaries and Benefits              | 690          | 799          | 974          | 1,331         | 1,709         |
| Premises and Equipment             | 234          | 274          | 281          | 289           | 353           |
| General and Administrative         | 692          | 486          | 808          | 1,324         | 1,491         |
| <b>Total</b>                       | <b>1,616</b> | <b>1,559</b> | <b>2,063</b> | <b>2,944</b>  | <b>3,553</b>  |
| <b>Net Earnings (Loss)</b>         | <b>(615)</b> | <b>468</b>   | <b>1,204</b> | <b>3,988</b>  | <b>4,718</b>  |
| <b>Balance Sheet Items</b>         |              |              |              |               |               |
| <b>Assets:</b>                     |              |              |              |               |               |
| Cash and Securities                | 19,034       | 36,636       | 82,955       | 157,280       | 208,856       |
| Public Sector Financing            | 1,064        | 16,384       | 36,746       | 78,534        | 124,030       |
| Mortgages and Loans                | 43,979       | 44,009       | 105,357      | 127,259       | 198,162       |
| Other Assets                       | 1,257        | 1,782        | 4,697        | 10,067        | 12,900        |
| Total                              | 65,334       | 98,811       | 229,755      | 373,140       | 543,948       |
| Average Assets                     | 62,611       | 82,073       | 164,283      | 301,447       | 458,544       |
| <b>Liabilities:</b>                |              |              |              |               |               |
| Deposits                           | 53,130       | 90,080       | 210,599      | 313,998       | 488,919       |
| Other Liabilities                  | 7,328        | 1,253        | 856          | 2,922         | 3,162         |
| Mortgages and Loans                | 1,780        | 1,929        | 1,864        | 388           | 358           |
| Notes Payable                      | 0            | 1,950        | 1,930        | 22,691        | 22,689        |
| Total                              | 62,238       | 95,212       | 215,249      | 339,999       | 515,128       |
| Shareholders' Equity               | 3,096        | 3,599        | 14,506       | 24,431        | 28,820        |
| Total                              | 65,334       | 98,811       | 229,755      | 373,140       | 543,948       |

\*TEB - Tax Equivalent Basis





# Examples of our investments

1

*Air Tindi provides important air service to Canada's north and was partially financed by the Government of Northwest Territories' Aurora Fund, a fund that PWC helped create.*

2

*Yorkton Catholic and Public School, Yorkton, Saskatchewan.*

3

*An MRI machine used by hospitals throughout Canada.*

4

*Residential housing units located in Iqaluit, Nunavut, leased to the Government of Canada.*

5

*Huron Heights Early Childhood Learning Centre, London, Ontario.*



6



8



7



9

6

*The Hospital for Sick Children, Toronto.*

7

*London Health Sciences Centre's gas turbine co-generation plant.*

8

*An example of road equipment used by municipalities throughout Canada.*

9

*Government Office Building in Iqaluit, Nunavut, financed by the Government of Northwest Territories' Aurora Fund.*





# Connecting value

Our deposit processing operations take place in Saskatoon, Saskatchewan. Through our Trust Company, we offer Guaranteed Investment Certificates (GICs) and RRSPs in Western Canada through a network of independent financial advisors.

Both of these products qualify for CDIC insurance. We have developed software and systems to enable us to efficiently process deposits without the need for branches. Our efficiency ratio is now three times better than that averaged by the large





Canadian banks. Presently we have 30,000 deposit customers and process, on average, \$4.0 million in deposits daily.

Our lending operations take place in London, Ontario. We lend throughout Canada to public

sector entities and in Southern Ontario we make first mortgages to residential developers. Our public sector entity customers include hospitals, school boards, municipalities, and provincial, federal and territorial governments.



# management's discussion & analysis

## Introduction

Management's Discussion and Analysis provides an analysis of our operations for the years ended December 31, 1999 and 1998. As we have announced our intention to apply for a federal bank licence, the ratios and percentages are calculated in the same manner as those of the six largest Canadian banks ("big banks") to provide for comparison. Where appropriate, figures are shown on a taxable equivalent basis ("TEB"), which means an adjustment has been made to interest and other income to gross up the tax exempt income earned by an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income that appears in the financial statements. An equal and offsetting adjustment is made to increase the provision for income taxes. This results in a better reflection of the pre-tax economic yield of these assets and facilitates uniform measurement and comparison of net interest income and other income.

Taking advantage of new technology, our Trust Company developed a system for issuing GICs through a deposit broker network. Funds and data are electronically transferred to us. In this way, we are able to raise funds much more efficiently than financial institutions that raise their deposits in the traditional way through retail branch networks. This has provided us with a significant competitive advantage, allowing us to provide attractive rates to our depositors and borrowers while still making significant profits, thus providing a higher rate of return to our shareholders. Our non-interest expenses as a percentage of assets, a recognized measure of efficiency, is now less than one-third of that averaged by the Canadian chartered banks.

## Risk Management

Risk management involves the identification and ongoing assessment of the material risks that could adversely affect the achievement of our goals. We have categorized these risks into four areas. They are: credit risk, liquidity risk, interest rate risk and operational risk. Our Board of Directors approves policies, reviews existing policies, delegates limits and reviews management's assessment of risk in its major risk-taking activities. An independent inspector is retained to provide a continuing review of our policies and procedures to ensure that they are appropriate and effective and that adequate controls are in place in order to mitigate risk to acceptable levels. This inspector reports to our Chief Executive Officer and the Audit Committee of the Board of Directors.

### Credit Risk

Generally, we accept credit risk in market niches that are not well served by the larger financial institutions. Our emphasis is on lower risk assets which include public sector borrowers, immigrant investors of government sponsored immigrant funds and investments in other financial institutions. We have established a policy to maintain at least 75% of our total consolidated assets in these lower risk assets. Additionally, we have policies to govern and limit portfolio concentrations by geographic area and asset category. Our Vice-President of Risk Management is independent of the business units sourcing assets and is integral to our credit approval process. We have established a risk rating policy that provides for risk rating each asset in our total asset portfolio.

Our asset quality is high, comparing favourably to the big banks. Gross impaired loans as a percentage of equity is 2.0% versus the big banks' 18.2%.



## Liquidity Risk

Liquidity risk is the risk of being unable to honour all our cash outflow obligations as they become due. We have established policies to ensure that our cash outflows and inflows are closely matched and that our sources of deposits are diversified over a wide geographic area. Additionally, we maintain a minimum amount of liquid assets and have standby lines of credit available. An Asset Liability Management Committee has been established to monitor liquidity risk, review compliance with our policies and discuss strategies in this area. With our emphasis on acquiring public sector and public sector related assets, our liquidity is high, comparing favourably to the big banks. Our liquidity ratio is 38.4% versus the big banks' 28.8%.

## Interest Rate Risk

Interest rate risk is the risk that a movement in interest rates could negatively impact our spread, net interest income and the economic value of our assets, liabilities and shareholders' equity. In order to mitigate this risk, our policy is to maintain the matching of our cash inflows and outflows so that a 100 basis point change in rates across the entire yield curve would not have an impact greater than 6% of our total capital. We conduct gap and sensitivity analyses to measure the impact of interest rate changes on our current earnings and the economic value of our interest rate sensitive assets, liabilities and equity.

## Operational Risk

Operational risk is a loss resulting from a breakdown in systems, procedures, human error, disasters or criminal activity. We have a comprehensive internal control policy which provides clear direction to all areas of our business and employees and establishes accountability and responsibilities to identify, assess, appropriately mitigate and control operational risks. We have hired banking professionals with many years of related experience. We have developed our own systems and software and tested them thoroughly and we have a comprehensive internal inspection to ensure that operational risk is mitigated to prudent levels.

## Shareholders' Equity and Notes

Shareholders' equity and notes increased by \$4.4 million or 9% to \$51.5 million at December 31, 1999. This increase resulted primarily from the retention of earnings. Our percentage of total capital to assets is 9.5% compared to the average of the big banks of 6.7%. Our total capital to risk weighted asset percentage is 19.8% versus the big banks' 11.6%. The chart to the right illustrates the rapid growth of our shareholders' equity and notes experienced in recent years. This allowed us to increase consolidated assets and realize significant economies of scale.

Shareholders' Equity & Notes





## Assets

The chart to the right illustrates that as our shareholders' equity and notes increased we were able to rapidly increase our assets. Total assets are \$544 million, a 46% increase over 1998's figure. In the past, our investment in PacWest was accounted for on a consolidated basis. However, considering our investment in the outstanding common shares of PacWest reduced to 46%, our investment in PacWest is now accounted for on the equity basis. This had the effect of reducing our assets by approximately \$14 million in 1999.

## Asset Quality

Our asset quality remains high, comparing favourably to the big banks. Gross impaired loans as a percentage of total equity is 2.0% versus the big banks' 18.2%.

## Liquidity

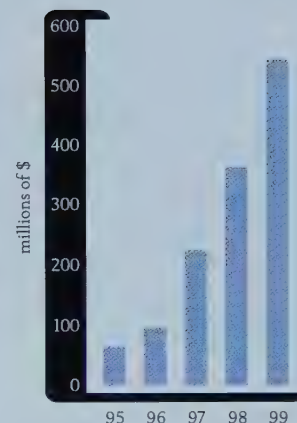
With our emphasis on acquiring public sector assets, our liquidity is high, comparing favourably to the big banks. Our liquidity ratio is 38.4% versus the big banks' 28.8%.

## Deposits

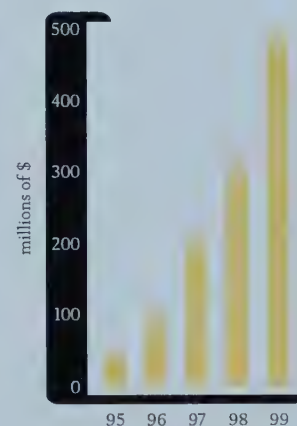
As is illustrated in the chart to the right, our deposit base has also grown rapidly. Presently, we have approximately 30,000 customers holding CDIC insured GICs that our Trust Company has issued. In the near future, we intend to launch the "Sunrise Savings Account" that will pay interest calculated daily and have a bill payment facility accessible through the Internet. This attractive new product should allow us to significantly increase our customer base.

Our ability to raise CDIC insured deposits in a very efficient manner has lowered our operating costs and provides us with a strong competitive advantage. Our clients in the public sectors, such as hospitals, school boards and municipalities, demand low borrowing rates and we are finding that our competitors, because of their relatively higher operating costs, are unable to compete with us. We match the maturities of our GICs to those of our financial assets in order to minimize our exposure to interest rate movements. Our management pays close attention to this important area of our business to ensure that we are not vulnerable to an adverse change in interest rates.

Assets



Deposits





## Spread

Spread is the difference between what we pay on our liabilities and equity and what we earn on our assets. During 1999, our spread declined from 2.05% to 1.65% on a TEB versus the big banks' average spread of 2.06% on a TEB. This was the result of not consolidating PacWest's interest and fee income into our net interest income figure as was done in 1998. If PacWest's interest and fee income of approximately \$2.2 million had been consolidated as it was in 1998, spread would have increased to 2.13%.

## Net Investment Income

Net investment income is directly proportionate to the size of our asset portfolio and average spread. Net investment income is earned from three main areas: public sector assets; private sector assets; and investment in other financial institutions. In the public sector asset category, we include government securities, municipal debentures, public sector loans and leases and immigrant investor loans. Public sector assets represent our primary target market. During 1999, the majority of the assets we booked were in this category. During 2000, this portion of our portfolio should again show significant growth as we are quickly gaining the reputation as the leading public sector financier. Private sector financing, other than CMHC insured mortgages, is secured by properties located in Southwestern Ontario. This is an area where our management has accumulated many years of successful lending experience. We invest in government securities, CMHC mortgage pools and other Canadian financial institutions in order to provide liquidity and a stable cash flow. Net investment income on a tax equivalent basis was \$7.6 million, an increase of \$1.4 million or 23%. With the continued rapid expansion of our public sector portfolio in 2000, net investment income should again show significant improvement. These low risk assets have enabled us to grow rapidly without the need for significant increases in overhead.

## Non-interest Income

Non-interest income, determined on a TEB, is \$4.3 million, up \$1.1 million or 33% from 1998. This increase was due to equity earnings from PacWest on a TEB of \$2.3 million and an increase in other income of \$205,000, which more than offset the \$1.5 million reduction (TEB) in the gain from the issuance of PacWest shares. Other income as a percentage of average assets equates to 0.93%, which is less than that averaged by the big banks of 2.4%. We expect to increase our non-interest income in the upcoming year and in the future by fees generated for fiduciary services and through fees earned through our on-line banking program that will be launched this year.

## Total Revenue

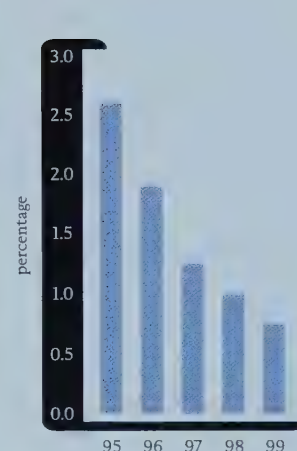
Total revenue, a combination of net interest income and non-interest income, is \$11.5 million on a TEB, up \$2.5 million or 27% from 1998.



## Non-interest Expenses

Non-interest expenses are \$3.5 million, up \$610,000 or 21% from 1998. This increase resulted from the hiring of new staff and higher compensation costs (\$378,000), an increase in premises and equipment (\$64,000) and an increase in general administrative expenses (\$167,000). These increases in expenses were primarily related to the increase in administration due to our rapid growth. The chart to the right illustrates that non-interest expenses ("NIE") as a percent of assets has continuously declined over the past five years as we have realized economies of scale and employed new technologies. It is now 0.77% of average assets, approximately one-third of that averaged by the big banks. Also, the chart to the right illustrates that our cost to earn a dollar of revenue has steadily declined so that it is now, at 30.9%, less than half that averaged by the big banks.

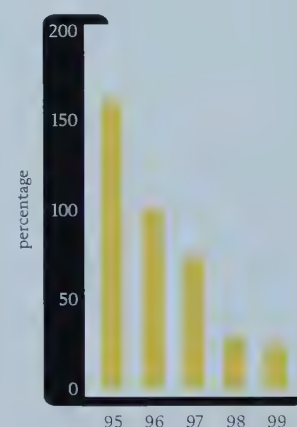
NIE/Average Assets



## Net Income

Net income is \$4.7 million, up \$700,000 or 18% from 1998. This gave rise to a return on average common equity of 26.2%, significantly better than the corresponding big banks' average of 16.1%.

Cost of Revenue



## Shareholder Value

Over the past five years, our shareholders have earned an annualized total return of 74.1% on their investment in Pacific & Western Credit Corp. This return exceeded the market return defined as the TSE 300 Composite Index® for the same period by 60.9%. In 1999, our shareholders experienced a return on our common shares of 36.7% compared to the TSE 300 Composite Index® return of 18.7%.

## Summary

Since 1993, with the appointment of our new management team and the adoption of our new business plan, we have devoted considerable time and resources to improving our productivity. Our belief was, and continues to be, that by improving productivity we would be able to make substantial profits by investing in higher quality, lower yielding assets. During 1999, we continued to invest in productivity and developed ebanking software and systems. We expect to launch our ebanking program in the near future. This will allow us to make available an expanded range of deposit products through the Internet and qualified financial advisors. Our Trust Company has applied for a Federal trust licence so that we will be able to expand deposit services in Ontario and Eastern Canada. We are planning to apply for a Schedule 1 bank licence during the year 2000 to provide for further growth of our public sector financing business. The net result of these initiatives should be to reduce our cost of funds and to further reduce our operating costs, enabling us to continue to grow at a rapid rate and increase the value of our company.



# statement of corporate governance practices

## Introduction

Management and the Board of Directors of PWC recognize the importance of maintaining an effective corporate governance framework. The fundamental duty of the Board of Directors is to supervise the management of the business affairs of PWC. The Board also recognizes the importance of enhancing and protecting shareholder value.

PWC maintains an ongoing relationship with its shareholders, both registered and non-registered, through Montreal Trust Company of Canada and other financial intermediaries and, in particular, through its Annual Shareholders' Meeting. Shareholders may communicate with PWC by contacting the Corporate Secretary's office or Montreal Trust Company of Canada, PWC's Transfer Agent and Registrar.

PWC's wholly-owned subsidiary, Pacific & Western Trust Corporation ("Trust Company"), carries out the main business of PWC, comprising 98% of PWC's assets. The Trust Company's Board and its committees carry out and oversee the corporate governance for both the Trust Company and PWC.

## Duties of the Board of Directors

The fundamental duties of the Board include:

- Establishing Board committees and mandates
- Receiving reports, at least annually, from each committee
- Approving all policies
- Declaration of dividends
- Overseeing communications with shareholders, including approving the annual financial statements and Annual Information Form
- Reviewing and approving the strategic plan and budget
- Comparing and measuring PWC's performance against prior years' performance, previously established plans and industry peers
- Reviewing the performance of PWC on a consolidated basis as well as the performance of major subsidiaries
- Ensuring that an audit/inspection function monitors the effectiveness of the organizational and procedural controls.

In order to discharge their responsibilities, committees of the Board may engage outside consultants as they see fit, subject to the approval of the Board.

## Composition of the Board

The TSE guidelines recommend that a corporation has a majority of unrelated directors. PWC has nine directors, six of which are "unrelated" as defined in the TSE guidelines on corporate governance.

PWC has determined that, considering its present size and complexity, nine is an appropriate number of directors. However, as PWC grows, consideration is given to increasing the size of the Board.



## Board Committees

### Audit Committee

Both PWC and the Trust Company have Audit Committees that oversee financial reporting procedures and ensure that adequate internal controls are in place over accounting and financial reporting systems. The Audit Committees perform the following functions:

- Review and monitor compliance with the Canada Deposit Insurance Corporation's standards for capital management, foreign exchange risk management, liquidity management, and internal control.
- Review the nature and scope of internal and external audit functions.
- Communicate regularly with external auditors.
- Review the annual financial statements prior to approval by the Board.

*Members (PWC): Kingsley G. Allaster (Chair), Arnold E. Hillier, Peter R. Lockyer, David R. Taylor, Michael C. Tucker, Barry D. Walter.*

*Members (Trust Company): Kingsley G. Allaster (Chair), Arnold E. Hillier, Peter R. Lockyer, David R. Taylor, Barry D. Walter.*

### Credit Review Committee

The Credit Review Committee performs the following functions:

- Ensures policies exist to maintain credit, liquidity and interest rate risk at acceptable levels.
- Reviews and monitors compliance with the Canada Deposit Insurance Corporation's Standards for real estate appraisals, securities portfolio management, interest rate risk management, and credit risk management.
- Concurs with credits exceeding the levels delegated to management, prior to commitment.

*Members: Kingsley G. Allaster (Chair), John W. Asma, G. Glenn Johnson, Peter R. Lockyer, H. Keith Munro, Bruce M. Schruder, David R. Taylor.*

### Conduct Review Committee

The Conduct Review Committee performs the following functions:

- Reviews and assesses related party transactions.
- Deals with matters of conflict of interest.
- Deals with matters of harassment in the workplace.
- Deals with matters regarding customer complaints, should any arise.

*Members: David A. Bratton, Peter R. Lockyer, Al Mikalachki (Chair), David R. Taylor.*

### Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee performs the following functions:

- Reviews and assesses the duties to be performed by the Chief Executive Officer.
- Reviews new appointments to senior management.
- Reviews the corporation's code of conduct.
- Reviews and makes recommendations pertaining to the management succession plan for senior management and officers.
- Reviews and assesses matters dealing with internal control, including the role of management and various organizational and procedural controls.
- Reviews and assesses the role of the Board of Directors, to be expanded to include reviewing the performance of the Board, its committees and directors, reviewing and, where appropriate, referring matters that should be brought to the attention of the Board or any other committee, setting criteria for the selection of directors, recommending Board candidates for election as directors, and examining and recommending the level and nature of directors' fees.

*Members: David A. Bratton (Chair), Peter R. Lockyer, Al Mikalachki, David R. Taylor, Jonathan F.P. Taylor.*



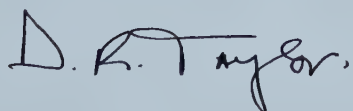
# management's responsibility for financial reporting

The consolidated financial statements of Pacific & Western Credit Corp. were prepared by management, which is responsible for the integrity and fairness of the data presented, including amounts which must of necessity be based on estimates and judgements. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. Financial information appearing throughout this Annual Report is consistent with the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained.

The board of directors oversees management's responsibilities for financial reporting through an Audit Committee. The Audit Committee reviews the consolidated financial statements of the Corporation and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the Corporation's existing internal control procedures and advising the directors on auditing matters and financial reporting issues.

KPMG LLP, independent auditors appointed by the shareholders of the Corporation upon the recommendation of the Audit Committee, have examined the consolidated financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of the system of internal controls.



David R. Taylor  
*President & Chief Executive Officer*



Barry D. Walter, C.A.  
*Chief Financial Officer*

March 10, 2000



# auditors' report to the shareholders

We have audited the consolidated balance sheets of Pacific & Western Credit Corp. as at December 31, 1999 and 1998 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



*Chartered Accountants*

Saskatoon, Canada

March 10, 2000



## consolidated balance sheets

December 31, 1999 and 1998

| (thousands of dollars)                      | 1999              | 1998              |
|---------------------------------------------|-------------------|-------------------|
| <b>Assets</b>                               |                   |                   |
| Cash resources                              | \$ 53,064         | \$ 69,599         |
| Securities (note 2)                         | 155,792           | 87,681            |
| Public sector financing (note 3(a))         | 124,030           | 78,534            |
| Mortgages and loans (note 3(b))             | 198,162           | 127,259           |
| Other assets (note 4)                       | 12,900            | 10,067            |
|                                             | <u>\$ 543,948</u> | <u>\$ 373,140</u> |
| <b>Liabilities and Shareholders' Equity</b> |                   |                   |
| Deposits (note 5)                           | \$ 488,919        | \$ 313,998        |
| Notes payable (note 6)                      | 22,689            | 22,691            |
| Other liabilities                           | 3,520             | 3,310             |
|                                             | <u>515,128</u>    | <u>339,999</u>    |
| Non-controlling interest                    | —                 | 8,710             |
| Shareholders' equity:                       |                   |                   |
| Share capital and warrants (note 7)         | 23,895            | 23,380            |
| Retained earnings                           | 4,925             | 1,051             |
|                                             | <u>28,820</u>     | <u>24,431</u>     |
|                                             | <u>\$ 543,948</u> | <u>\$ 373,140</u> |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

*D. R. Taylor*  
Director

*Peter R. Galtier*  
Director

## consolidated statements of earnings

Years ended December 31, 1999 and 1998

| (thousands of dollars)                                    | 1999      | 1998      |
|-----------------------------------------------------------|-----------|-----------|
| Interest income on loans and leases                       | \$ 18,546 | \$ 13,900 |
| Interest and income from securities                       | 10,687    | 5,752     |
| Loan fee income                                           | 868       | 1,196     |
|                                                           | 30,101    | 20,848    |
| Interest expense                                          | 24,277    | 14,655    |
| Net interest income before provision for loan losses      | 5,824     | 6,193     |
| Provision for loan losses (note 3(b))                     | 321       | 401       |
| Net interest income                                       | 5,503     | 5,792     |
| Equity earnings                                           | 1,268     | —         |
| Gain on issue of shares (note 4)                          | 750       | 1,558     |
| Other income                                              | 582       | 377       |
|                                                           | 8,103     | 7,727     |
| Non-interest expenses:                                    |           |           |
| Salaries and benefits                                     | 1,709     | 1,331     |
| General and administrative                                | 1,491     | 1,324     |
| Premises and equipment                                    | 353       | 289       |
|                                                           | 3,553     | 2,944     |
| Earnings before income taxes and non-controlling interest | 4,550     | 4,783     |
| Income taxes (note 8)                                     | 168       | (669)     |
| Non-controlling interest share of earnings                | —         | (126)     |
| Net earnings                                              | \$ 4,718  | \$ 3,988  |
| Basic earnings per share (note 9)                         | \$ 0.10   | \$ 0.10   |
| Fully diluted earnings per share (note 9)                 | \$ 0.09   | \$ 0.08   |

See accompanying notes to consolidated financial statements.



## consolidated statements of retained earnings

Years ended December 31, 1999 and 1998

| (thousands of dollars)                                       | 1999     | 1998       |
|--------------------------------------------------------------|----------|------------|
| Retained earnings (deficit), beginning of year               | \$ 1,051 | \$ (2,078) |
| Net earnings                                                 | 4,718    | 3,988      |
| Dividends paid on preferred shares                           | (722)    | (749)      |
| Dividends paid by associated corporation on preferred shares | (122)    | (110)      |
| Retained earnings, end of year                               | \$ 4,925 | \$ 1,051   |

See accompanying notes to consolidated financial statements.

## consolidated statements of cash flows

Years ended December 31, 1999 and 1998

| (thousands of dollars)                                       | 1999      | 1998      |
|--------------------------------------------------------------|-----------|-----------|
| Cash provided by (used in):                                  |           |           |
| Operations:                                                  |           |           |
| Net earnings                                                 | \$ 4,718  | \$ 3,988  |
| Items not involving cash:                                    |           |           |
| Provision for loan losses                                    | 321       | 401       |
| Equity earnings                                              | (1,268)   | —         |
| Gain on issue of shares                                      | (750)     | (1,558)   |
| Future income taxes                                          | (379)     | 66        |
| Non-controlling interest share of earnings                   | —         | 126       |
| Change in other assets and liabilities                       | (2,391)   | (4,846)   |
|                                                              | 251       | (1,823)   |
| Investing:                                                   |           |           |
| Securities                                                   | (68,111)  | (5,616)   |
| Public sector financing                                      | (45,496)  | (41,788)  |
| Mortgages and loans                                          | (76,491)  | (22,303)  |
| Investment in associated corporation                         | (1,440)   | —         |
|                                                              | (191,538) | (69,707)  |
| Financing:                                                   |           |           |
| Deposits                                                     | 174,921   | 103,399   |
| Investment by non-controlling interests in subsidiary        | —         | 10,142    |
| Notes payable                                                | —         | 22,689    |
| Issuance of share capital                                    | 553       | 5,152     |
| Share issuance costs                                         | —         | (284)     |
| Dividends paid on preferred shares                           | (722)     | (749)     |
| Dividends paid by associated corporation on preferred shares | —         | (110)     |
|                                                              | 174,752   | 140,239   |
| Increase (decrease) in cash resources                        | (16,535)  | 68,709    |
| Cash resources, beginning of year                            | 69,599    | 890       |
| Cash resources, end of year                                  | \$ 53,064 | \$ 69,599 |
| Supplementary cash flow information:                         |           |           |
| Interest paid during the year                                | \$ 19,180 | \$ 11,511 |
| Income taxes paid during the year                            | \$ 336    | \$ 329    |

See accompanying notes to consolidated financial statements.



# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

Pacific & Western Credit Corp. (the "Corporation"), through its subsidiaries is involved in the business of providing financial services to public and private sector entities. Pacific & Western Trust Corporation ("P&W Trust"), its principal subsidiary, is licensed in Manitoba, Saskatchewan, Alberta, British Columbia, the Northwest Territories and Nunavut. These licenses allow P&W Trust to conduct trust business including the raising of deposits. Additionally, P&W Trust is licensed in Ontario to conduct trust business only. Investments, including lending activities, are made from its head office in Saskatoon, Saskatchewan and from its wholly-owned subsidiary, PW Capital Inc., located in London, Ontario.

## 1. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting principles used in the preparation of these consolidated financial statements are summarized below:

### (a) Investments:

These consolidated financial statements include the accounts of the following subsidiary companies: 100% of the common shares of Pacific & Western Trust Corporation, Pacific & Western Public Sector Financing Corp. and PW Financial Inc.

All significant intercompany accounts and transactions have been eliminated.

Investments in which the Corporation exercises significant influence are accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the Corporation's share of post-acquisition earnings of the associated corporation less dividends received.

### (b) Cash resources:

Cash resources include deposits with Canadian chartered banks available within ninety days, net of cheques and other items in transit.

### (c) Securities:

The Corporation holds securities for investment purposes with the original intention of holding the securities to maturity or until market conditions render alternative investments more attractive. Debt and fixed term preferred securities are stated at amortized cost. The amortization of premiums or discounts is included in income over the period to maturity. Any impairment in their underlying value other than a temporary impairment is recorded as a charge to income in the year in which it occurs.

Gains and losses on disposal of securities are included in income in the year realized.

# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 1. Significant accounting policies - continued:

### (d) Financial products and services:

Financial products and services ("loans") offered by the Corporation principally include public sector financing and residential mortgages. Public sector financing is provided to entities such as hospitals, school boards, municipalities, provincial and federal governments and related agencies.

Loans are stated at cost less an allowance for losses.

Interest income on loans is recorded on the accrual basis until such time as the loan is classified as impaired. An impaired loan is a loan where there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. An uninsured loan is classified as impaired when scheduled payments are more than ninety days in arrears. An insured loan is classified as impaired when scheduled payments are more than one hundred and eighty days in arrears. When a loan is classified as impaired, accrual of interest on the loan ceases, the amount of any accrued and unpaid interest is reversed and charged against income at the time and the carrying amount of the loan is reduced to its estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows, if they can be reasonably estimated, using the effective interest rate inherent in the loan. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the loan is reduced to its estimated net realizable value based on either i) the fair value of any security underlying the loans, net of expected costs of realization, or ii) observable market prices for the loans. As long as the loan remains classified as impaired, interest will be recognized only when all charges of loan impairment have been reversed.

Loan fees in excess of estimated administrative costs are recognized in income over the appropriate lending or commitment period.

Real estate acquired as settlement of loans is stated at cost less an allowance for losses.

### (e) Allowance for loan losses:

The allowance for loan losses consists of specific provisions, being provisions against specific credit exposure determined on an item-by-item basis and a general provision for doubtful loans, being a provision of a prudent nature which cannot be determined on an item-by-item basis but which in management's opinion may be required in order to absorb future credit losses.

The provision for loan losses is presented net of recoveries of provisions recorded in prior years.



# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 1. Significant accounting policies - continued:

### (f) Deferred financing charges:

Deferred financing charges related to notes payable are being amortized on a straight-line basis over the term of the related debt. The amortization of these charges is included with interest expense in the Consolidated Statements of Earnings.

### (g) Income taxes:

The Corporation follows the asset/liability method of accounting for income taxes.

### (h) Financial instruments:

The amounts recorded in the balance sheet for cash resources, other assets and other liabilities approximate fair value due to the short term maturity of these instruments. Fair values for interest bearing financial assets and liabilities are disclosed elsewhere in the notes to the financial statements.

Interest rate swap agreements entered into for the purpose of limiting exposure to changes in interest rates are accounted for on the accrual basis. Interest rate swaps are transactions in which two parties exchange interest flows on specified notional amounts for a predetermined period based on agreed-upon fixed and floating rates. Notional amounts are not exchanged.

The Corporation has not entered into any foreign currency transactions, forward exchange contracts, or any other off-balance sheet financial instruments, other than interest rate swap agreements noted above.

### (i) Risk management:

The Corporation manages its risk of changes in interest rates by matching the cash inflows of its asset portfolio to the cash outflows of its deposits and other interest bearing debt. Management reviews its interest rate risk exposure on an ongoing basis to ensure that it falls within limits set by corporate policy.

The Corporation has established a comprehensive Credit Risk Management Program to manage its credit risk. The Program consists of approval procedures and limits on: loan amounts, geographic concentration, loans to any one entity, associated groups and each of its asset categories. Lending practices are monitored on an ongoing basis to ensure they comply with the Program.

# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 2. Securities:

### (a) Portfolio analysis:

| (thousands of dollars)                        | 1999       | 1998      |
|-----------------------------------------------|------------|-----------|
| Securities issued or guaranteed by:           |            |           |
| Canadian federal government                   | \$ 30,112  | \$ 59,084 |
| Canadian provinces                            | 17,115     | 18,406    |
| Canadian municipalities                       | 4,000      | 1,000     |
| Government insured mortgage-backed securities | 7,430      | 7,769     |
| Preferred shares of financial institutions    | 76,131     | —         |
| Other investments of financial institutions   | 18,510     | 142       |
|                                               | 153,298    | 86,401    |
| Accrued interest                              | 2,494      | 1,280     |
|                                               | \$ 155,792 | \$ 87,681 |

### (b) Maturities and yields:

| (thousands of dollars) |            |       |           |       |
|------------------------|------------|-------|-----------|-------|
| Maturity dates         | 1999       | Yield | 1998      | Yield |
| Within 3 months        | \$ 35,082  | 5.13% | \$ 56,005 | 5.00% |
| 3 months - 1 year      | 15,712     | 5.82% | 14,404    | 5.87% |
| 1 year - 2 years       | 2,176      | 4.82% | 1,000     | 5.55% |
| 2 years - 5 years      | 37,865     | 5.65% | 6,108     | 4.98% |
| Over 5 years           | 62,463     | 5.92% | 8,884     | 5.94% |
|                        | \$ 153,298 | 5.65% | \$ 86,401 | 5.25% |

Average effective yields are based on book values and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. The market value of these securities, based on quoted market prices at December 31, 1999, was \$146,945,000 (1998 - \$86,300,000).



# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 3. Financial products and services:

### (a) Public sector financing:

| (thousands of dollars)                | 1999       | 1998      |
|---------------------------------------|------------|-----------|
| Public sector equipment leases        | \$ 36,999  | \$ 21,614 |
| Municipal debentures                  | 12,724     | 14,806    |
| Public sector loans                   | 56,664     | 35,276    |
| Loans secured by public sector leases | 16,616     | 6,130     |
|                                       | 123,003    | 77,826    |
| Accrued interest                      | 1,027      | 708       |
|                                       | \$ 124,030 | \$ 78,534 |

At December 31, 1999, public sector financing had a market value based on discounted cash flows using market rates of \$122,046,000 (1998 - \$78,900,000).

### (b) Mortgages and loans:

| (thousands of dollars)                          | 1999       | 1998       |
|-------------------------------------------------|------------|------------|
| Residential mortgages:                          |            |            |
| Insured                                         | \$ 29,491  | \$ 7,069   |
| Uninsured                                       | 31,201     | 12,102     |
| Development                                     | 34,336     | 44,037     |
| Commercial mortgages and loans                  | 15,708     | 15,345     |
| Government sponsored immigrant investment loans | 82,093     | 44,567     |
| Other                                           | 1,844      | 517        |
|                                                 | 194,673    | 123,637    |
| Real estate                                     | 3,591      | 3,695      |
|                                                 | 198,264    | 127,332    |
| Allowance for losses:                           |            |            |
| General                                         | (612)      | (531)      |
| Specific loans                                  | (308)      | (89)       |
| Real estate                                     | (424)      | (410)      |
|                                                 | 196,920    | 126,302    |
| Accrued interest                                | 1,242      | 957        |
|                                                 | \$ 198,162 | \$ 127,259 |

# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 3. Financial products and services - continued:

### (b) Mortgages and loans - continued:

At December 31, 1999, mortgages and loans had a market value based on net discounted cash flows using market interest rates for loans and appraised values for real estate of \$196,200,000 (1998 - \$129,900,000).

The allowance for loan losses results from the following:

| (thousands of dollars)                     | 1999     | 1998     |
|--------------------------------------------|----------|----------|
| Balance, beginning of year                 | \$ 1,030 | \$ 883   |
| Provision for loan losses                  | 321      | 401      |
| Provisions realized on settlement of loans | (7)      | (254)    |
| Balance, end of year                       | \$ 1,344 | \$ 1,030 |

### (c) Maturities and yields:

The loan and public sector financing portfolios mature as follows:

| (thousands of dollars) |            |       |            |       |
|------------------------|------------|-------|------------|-------|
| Maturity dates         | 1999       | Yield | 1998       | Yield |
| Floating               | \$ 33,678  | 6.60% | \$ 15,875  | 7.24% |
| Within 3 months        | 19,150     | 8.59% | 26,452     | 8.56% |
| 3 months - 1 year      | 32,433     | 7.45% | 37,365     | 8.84% |
| 1 year - 2 years       | 8,810      | 6.88% | 6,693      | 7.63% |
| 2 years - 5 years      | 157,193    | 6.97% | 88,541     | 7.01% |
| Over 5 years           | 66,412     | 6.67% | 26,537     | 6.32% |
|                        | \$ 317,676 | 7.01% | \$ 201,463 | 7.50% |

Average effective yields are based on book values and contractual interest rates, adjusted for the amortization of any deferred income.

### (d) Impaired loans:

At December 31, 1999, impaired loans totaled \$1,061,000 (1998: \$nil).



# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 4. Other assets:

| (thousands of dollars)              | 1999      | 1998      |
|-------------------------------------|-----------|-----------|
| Investment in PacWest Ventures Ltd. | \$ 7,910  | \$ –      |
| Prepaid expenses and other          | 3,791     | 4,972     |
| Deferred financing charges          | 1,199     | 1,337     |
| Other equity investments            | –         | 3,758     |
|                                     | \$ 12,900 | \$ 10,067 |

In July 1999, PacWest Ventures Ltd. (PacWest), an associated corporation, issued common shares to third parties resulting in the Corporation's ownership being reduced from 52% to 46%. Commencing in August 1999, the Corporation began accounting for its investment in PacWest on an equity rather than a consolidated basis.

As a result of the dilution of its ownership in PacWest, the Corporation has recognized a gain of \$750,000 (1998 - \$1,558,000).

The common shares of PacWest are listed on the Canadian Venture Exchange. The market value of this investment based on quoted market prices at December 31, 1999 was \$15,500,000 (1998 - \$10,200,000)

## 5. Deposits:

| (thousands of dollars) |            | Effective |            | Effective |
|------------------------|------------|-----------|------------|-----------|
| Maturity dates         | 1999       | Rate      | 1998       | Rate      |
| Within 3 months        | \$ 85,273  | 5.03%     | \$ 69,673  | 4.94%     |
| 3 months - 1 year      | 217,275    | 5.31%     | 136,114    | 5.15%     |
| 1 year - 2 years       | 51,706     | 5.58%     | 28,681     | 5.47%     |
| 2 years - 5 years      | 123,229    | 5.78%     | 72,059     | 5.78%     |
|                        | \$ 477,483 | 5.41%     | \$ 306,527 | 5.28%     |
| Accrued interest       | 11,436     |           | 7,471      |           |
|                        | \$ 488,919 |           | \$ 313,998 |           |

Average effective rates are based on book values and contractual interest rates. At December 31, 1999, the fair value of the Corporation's deposits, calculated based on discounted cash flows using market interest rates, was \$472,400,000 (1998 - \$306,350,000).

As at December 31, 1999, the Corporation has outstanding contracts to swap floating for fixed interest rates with a notional amount totaling \$46 million terminating between the years 2001 and 2004. At December 31, 1999, the book value of these contracts approximated their market value.

# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 6. Notes payable:

| (thousands of dollars)                                                                                                                                                                               | 1999      | 1998      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| 9.0% Ten Year Term Series C Notes,<br>convertible into common shares, unsecured.                                                                                                                     | \$ 22,687 | \$ 22,689 |
| 9.5% Ten Year Term Series A Notes, exchangeable<br>into common shares. The Series A Notes are secured<br>by a pledge of subordinated notes of equal value issued<br>by P&W Trust to the Corporation. | 2         | 2         |
|                                                                                                                                                                                                      | \$ 22,689 | \$ 22,691 |

The Series A notes are exchangeable on the basis of one common share for every \$0.60 exchanged until August 1998 and \$1.20 until 2001.

The Series C notes were issued on October 16, 1998, mature in 2008 and are convertible on the basis of one share for every \$2.50 converted during the first three years after issuance and one share for every \$5.00 converted during the next two years.

During the year, interest paid on these notes totaled \$2,042,000 (1998 - \$483,000). At December 31, 1999, the book value of the notes payable approximated the fair value, calculated based on discounted cash flows using market interest rates.

## 7. Share capital and warrants:

### (a) Authorized:

#### *Common shares:*

The Corporation is authorized to issue an unlimited number of common shares.

#### *Series One Class A Preferred shares:*

The Corporation is authorized to issue 600,000 Series One Class A Preferred shares of which none are issued. These shares are entitled to cumulative dividends of 7% per annum and are redeemable and retractable at \$11.00 per share.

#### *Series Two Class A Preferred shares:*

The Corporation is authorized to issue 3,500,000 Series Two Class A Preferred shares. These shares are entitled to cumulative dividends at the rate of 3.0% per annum. The shares are redeemable for \$2.00 per share upon certain conditions and are convertible into three common shares. At December 31, 1999, there were no dividends in arrears.



# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 7. Share capital and warrants - continued:

### *Series Three Class A Preferred shares:*

The Corporation is authorized to issue 3,500,000 Series Three Class A Preferred shares. These shares are entitled to cumulative dividends at the rate of 8.5% per annum. The shares are redeemable at \$3.00 per share under certain conditions and are convertible into three common shares. At December 31, 1999, there were no dividends in arrears.

### (b) Issued and outstanding:

| (thousands of dollars)                          | 1999       |          | 1998       |          |
|-------------------------------------------------|------------|----------|------------|----------|
|                                                 | Shares     | Amount   | Shares     | Amount   |
| Common shares:                                  |            |          |            |          |
| Outstanding, beginning of year                  | 36,816,643 | \$13,452 | 27,205,218 | \$ 5,735 |
| Shares issued for cash                          | —          | —        | 750,000    | 1,088    |
| Shares issued on exercise of options            | 1,083,438  | 553      | 1,331,941  | 633      |
| Shares issued on exchange of notes              | 800        | 2        | 2,879,985  | 1,928    |
| Shares issued on conversion of preferred shares | 1,095,675  | 750      | 940,500    | 637      |
| Shares issued on exercise of warrants           | —          | —        | 3,708,999  | 3,431    |
| Outstanding, end of year                        | 38,996,556 | 14,757   | 36,816,643 | 13,452   |
| Series Two Class A Preferred shares:            |            |          |            |          |
| Outstanding, beginning of year                  | 2,452,436  | 4,832    | 2,756,736  | 5,442    |
| Conversion to common shares                     | (345,800)  | (692)    | (304,300)  | (610)    |
| Outstanding, end of year                        | 2,106,636  | 4,140    | 2,452,436  | 4,832    |
| Series Three Class A Preferred shares:          |            |          |            |          |
| Outstanding, beginning of year                  | 2,320,594  | 6,962    | 2,329,794  | 6,989    |
| Conversion to common shares                     | (19,425)   | (58)     | (9,200)    | (27)     |
| Outstanding, end of year                        | 2,301,169  | 6,904    | 2,320,594  | 6,962    |
| Less share issue costs                          |            | (1,906)  |            | (1,866)  |
| Total share capital                             |            | \$23,895 |            | \$23,380 |

# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 7. Share capital and warrants - continued:

### (c) Options:

The Corporation provides compensation for directors, directors of subsidiary companies and employees in the form of stock options. The Corporation does not record an expense when options are granted since the exercise price of the option is set at the market price of the Corporation's common shares on the issue date of the options. When options are exercised, the proceeds are credited to common shares.

At December 31, 1999, 2,661,000 common shares have been reserved for stock options as follows:

| Expiry date        | Number of options | Price   |
|--------------------|-------------------|---------|
| September 15, 2007 | 761,000           | \$ 1.28 |
| March 12, 2008     | 749,000           | 1.51    |
| October 14, 2008   | 14,000            | 1.80    |
| December 9, 2008   | 1,137,000         | 2.05    |

## 8. Income taxes:

Effective January 1, 1999, the Corporation adopted the accounting recommendations in CICA handbook Section 3465, Income Taxes. There was no material impact on the consolidated financial statements for either 1999 or 1998 from the application of this new Section.

Income tax expense, including both the current and future portions varies from the amounts that would be computed by applying the statutory federal and provincial tax rates aggregating 45% (1998 - 45%) to income before taxes. Income taxes have been computed as follows:

| (thousands of dollars)                                            | 1999       | 1998       |
|-------------------------------------------------------------------|------------|------------|
| Tax at basic rates                                                | \$ (2,048) | \$ (2,152) |
| Decrease (increase) in taxes resulting from:                      |            |            |
| Non-taxable income from securities                                | 1,071      | —          |
| Non-taxable income from investments                               | 908        | 701        |
| Benefit of unrecorded loss carry-forwards<br>and other deductions | 391        | 970        |
| Federal large corporations tax                                    | (105)      | (90)       |
| Corporate minimum tax                                             | (40)       | (83)       |
| Other                                                             | (9)        | (15)       |
| Recovery (provision) for income taxes                             | \$ 168     | \$ (669)   |
| Effective rate                                                    | 4%         | 14%        |



# notes to consolidated financial statements

Years ended December 31, 1999 and 1998

## 8. Income taxes - continued:

The recovery (provision) for income taxes is comprised of:

| (thousands of dollars) | 1999     | 1998     |
|------------------------|----------|----------|
| Current income taxes   | \$ (211) | \$ (603) |
| Future income taxes    | 379      | (66)     |
|                        | \$ 168   | \$ (669) |

The components of future income tax balances are as follows:

| (thousands of dollars)         | 1999   | 1998   |
|--------------------------------|--------|--------|
| Future income tax assets:      |        |        |
| Allowance for loan losses      | \$ 635 | \$ 534 |
| Loss carry-forwards            | 6,899  | 891    |
| Other                          | 757    | 536    |
| Valuation allowance            | -      | (869)  |
|                                | 8,291  | 1,092  |
| Future income tax liabilities: |        |        |
| Deposit commissions            | 1,314  | 827    |
| Securities valuation           | 5,612  | -      |
| Other                          | 523    | 265    |
|                                | 7,449  | 1,092  |
|                                | 842    | -      |
| Statutory rate                 | 45%    | 45%    |
| Net future income tax asset    | \$ 379 | \$ -   |

## 9. Earnings per share:

The calculation of basic earnings per share has been calculated after deducting dividends paid on preferred shares of \$844,000 (1999 - \$859,000). The weighted average number of common shares outstanding was 38,300,000 (1998 - 32,402,000).

## 10. Assets under administration:

At December 31, 1999, the Corporation has \$40,060,000 (1998 - \$24,572,000) of assets under administration. These assets are maintained separately from the Corporation's assets and are not included in the consolidated balance sheets.

# officers and directors

Pacific & Western Credit Corp. and Pacific & Western Trust Corporation



Peter R. Lockyer, L.L.B., Q.C.  
*Chairman of the Board and Director*  
*Pacific & Western Credit Corp. and*  
*Pacific & Western Trust Corporation*  
Partner, Lockyer Spence Barristers  
and Solicitors



David R. Taylor, B.Sc. (Hons.), M.B.A.,  
F.I.C.B.  
*Director, President and*  
*Chief Executive Officer*  
Pacific & Western Credit Corp. and  
Pacific & Western Trust Corporation



Jonathan F.P. Taylor, B.B.A.  
*Director and Vice-President*  
Pacific & Western Credit Corp. and  
Pacific & Western Trust Corporation



Bruce M. Schruder,  
B.B.A. (Hons.), F.I.C.B.  
*Director and Vice-President*  
Pacific & Western Credit Corp. and  
Pacific & Western Trust Corporation



Barry D. Walter, B.Comm., C.A.  
*Chief Financial Officer*  
Pacific & Western Credit Corp. and  
Pacific & Western Trust Corporation



John W. Asma, B.A. (Hons.), M.B.A.  
*Treasurer and Vice-President*  
Pacific & Western Credit Corp. and  
Pacific & Western Trust Corporation



Barbara E.M. Hale, L.L.B.  
*Corporate Secretary*  
Pacific & Western Credit Corp. and  
Pacific & Western Trust Corporation



Arnold E. Hillier, C.A., B.Comm.  
*Director - Pacific & Western Credit Corp.*  
*and Pacific & Western Trust Corporation*  
Vice-Chairman, Chief Executive  
Officer and Chief Financial Officer,  
Claude Resources Inc.



Michael C. Tucker, B.A.  
*Director - Pacific & Western*  
*Credit Corp.*  
Publisher, Southwestern  
Publishing (London and Waterloo  
Phone Guide)

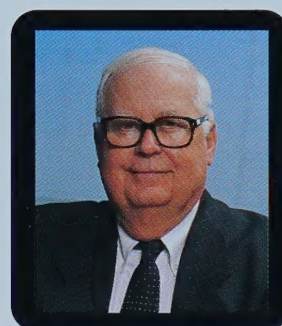




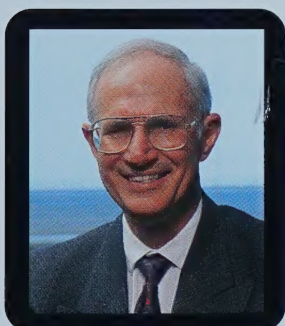
David A. Bratton, B.A. (Hons.),  
M.B.A., C.M.C.  
*Director - Pacific & Western  
Trust Corporation*  
President, Bratton Consulting Inc.



Douglas W. Gough  
*Director - Pacific & Western  
Credit Corp.*  
Partner, Mintz & Partners, Financial  
Services, North York, Ontario



Kingsley G. Allaster, C.A.,  
B.A. (Hons.)  
*Director - Pacific & Western Credit Corp.  
and Pacific & Western Trust Corporation*  
Chief Operating Officer, Venture  
Capital London Inc., President,  
Kingsley G. Allaster & Associates



Al Mikalachki, B.Comm.,  
M.B.A., Ph.D.  
*Director - Pacific & Western  
Trust Corporation*  
Professor Emeritus, Richard Ivey  
School of Business, University of  
Western Ontario

John L. Evans, M.B.A., Ph.D.  
*Director - Pacific & Western Credit Corp.*  
Principal, Financial Services Industry  
Monitor and EPS – Evans Strategic  
Policy Inc., Vice-Chairman, Ross Dixon  
Holdings Limited

G. Glenn Johnson  
*Director - Pacific & Western Trust  
Corporation*  
Venture capitalist; Chairman of  
Nutech Energy Systems Inc.

# corporate information

## **Solicitors**

MacPherson Leslie & Tyerman  
1500 – 410 22nd Street East  
Saskatoon, Saskatchewan  
S7K 5T6

## **Auditors**

KPMG LLP  
600 – 128 4th Avenue South  
Saskatoon, Saskatchewan  
S7K 1M8

## **Bank**

Canadian Imperial Bank of Commerce  
201 – 21st Street East, Main Branch  
Saskatoon, Saskatchewan  
S7K 0B8

## **Transfer Agent**

Main Agent  
Montreal Trust  
151 Front Street West  
Toronto, Ontario  
M5J 2N1

Co-Agent  
Montreal Trust  
530 – 8th Avenue S.W.  
Calgary, Alberta  
T2P 3S8

## **Stock Exchange Listing**

The Toronto Stock Exchange  
Trading Symbol: PWC

## **Corporate Offices**

Pacific & Western Credit Corp.  
*Saskatoon Office*  
950 – 410 22nd Street East  
Saskatoon, Saskatchewan  
S7K 5T6  
Telephone: (306) 244-1868  
Fax: (306) 244-4649

### *London Office*

Suite 2002, Talbot Centre  
140 Fullarton Street  
London, Ontario  
N6A 5P2  
Telephone: (519) 645-1919  
Fax: (519) 645-2060

### *Yellowknife Office*

Postal Station 9600  
Suite 254  
4905 – 48th Street  
Yellowknife, NWT  
X1A 2R3  
Telephone: (867) 669-0091  
Fax: (867) 669-0704

## **www.pwcorp.com**

contactus@pwcorp.com

## **Annual Meeting**

June 20, 2000 at 10:00 a.m. (Saskatoon time)  
Sheraton Cavalier Hotel, South Room  
612 Spadina Crescent East  
Saskatoon, Saskatchewan



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